

WHAT IS A HOMESTEAD CAP REDUCTION?

Prices of new and used homes in Parker County have increased substantially in recent years. In order to prevent sharp increases in home property taxes from year to year, Texas voters in 1997 approved a constitutional amendment, which became effective January 1, 1998, to limit increases in the taxable value of a qualified residence homestead. To qualify, property must be your residence homestead, and you must have received a homestead exemption in your name in both the current and previous years.

Under this law, the value for tax purposes (appraised value) of a qualified residence homestead will be the LESSER of:

the market value (what the property would sell for on the open market); or
the preceding year's appraised value

+ 10%

+ the value of any improvements i.e., pool, outbuilding, added since the last re-appraisal.

Note: The calculated value is often referred to as a "capped" value.

EXAMPLE YEAR 1: Mr. Smith's home appraised value for 2015 was \$100,000. Mr. Smith has made no changes to his home. In 2016, the appraisal district determines the market value of Mr. Smith's home to be \$140,000. Mr. Smith's value for property tax purposes will be the lesser of:

\$140,000 (the market value of the home); or

The 2015 appraised value of **\$100,000** Plus 10%

Mr. Smith's taxable value for 2016 will be **\$110,000** = $(\$100,000 \times 10\%) + \$100,000$.

This will create a cap reduction of **\$30,000**.

EXAMPLE YEAR 2: Mr. Smith's 2017 taxable value will be the lesser of:

\$140,000 (the market value of the home); or

The 2016 assessed value of **\$110,000** Plus 10%

Mr. Smith's taxable value for 2017 will be **\$121,000** = $(\$110,000 \times 10\%) + \$110,000$.

This would create a cap reduction of **\$19,000**.

EXAMPLE YEAR 3: Mr. Smith's 2018 taxable value will be the lesser of:

\$140,000 (the market value of the home); or

The 2017 assessed value of **\$121,000** Plus 10%

Mr. Smith's taxable value for 2018 will be **\$133,100** = $(\$121,000 \times 10\%) + \$121,000$.

This would create a cap reduction of **\$6,900**.

EXAMPLE YEAR 4: Mr. Smith's 2019 taxable value will be the lesser of:

\$140,000 (the market value of the home); or

The 2018 assessed value of \$133,100 Plus 10% = \$146,410.

Therefore, Mr. Smith's taxable value for 2019 will at the market value of \$140,000.

- The preceding examples are based on the assumption that the market value remains unchanged at \$140,000